



The US Market For Apparel: A Road Map

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Main Points

- ✧ Perceptions of South Africa's Clothing Industry
- ✧ Identification of Market Entry Strategies
- ✧ Constraints on Entering the US Market



Perceptions of South Africa's Apparel Vendors

Opportunities

- ✧ Excellent quality
- ✧ Safe bet in Africa
- ✧ No quotas
- ✧ AGOA benefits

Concerns

- ✧ Distant from markets
- ✧ High cost
- ✧ Low volume
- ✧ Re-orders and service
- ✧ Access to regional fabrics



Opportunities

- ✧ U.S. companies perceive South African suppliers as high quality but high cost manufacturers
- ✧ AGOA means U.S. companies can take a new look at South Africa



Opportunities

- ✧ Potential to eliminate tariff costs and quota costs
- ✧ South African industry can target Fashion and Fashion-Basics production to develop new business



Opportunities

A Regional Hub: Hong Kong of Africa

- ✧ Logistics
- ✧ Trade Finance
- ✧ Merchandising
- ✧ Quality control
- ✧ Materials sourcing
- ✧ Product development



Concerns

- ✧ Need to overcome perception that costs are too high
- ✧ Need to overcome concern that South African fabric manufacturers cannot meet the demand for AGOA qualifications



Concerns

- ✧ Need to overcome fears that South African industry cannot meet corporate expectations regarding Codes of Conduct and Security



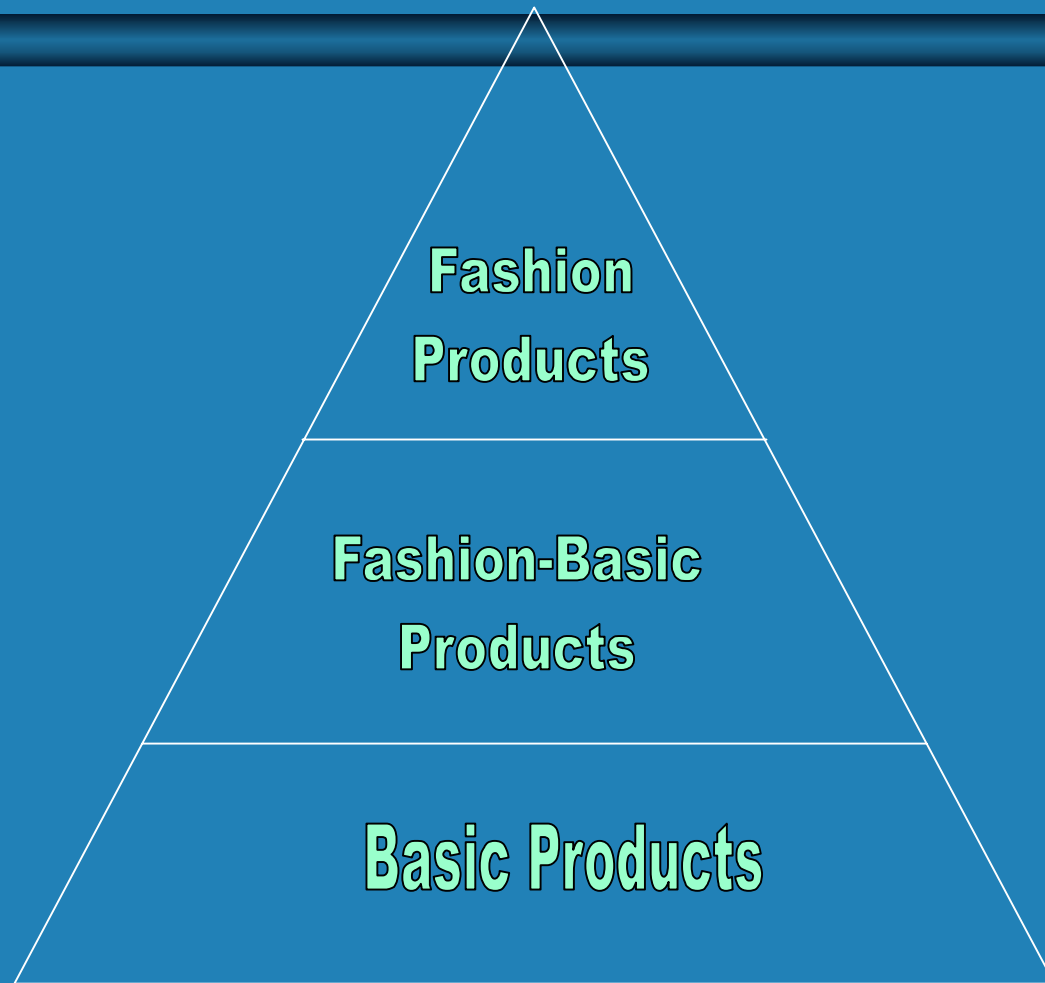
Concerns

- ✧ Need to overcome fears that labor unrest is likely to disrupt production
- ✧ Need to overcome fears that South Africa has problems maintaining political and economic stability



US Market Entry Strategies

Today's Sourcing Paradigm



Source: A Stitch in Time, Oxford University Press, 1999.



What Drives the U.S. Sourcing Decision

- Right Product
- Right Cost
- Right Quantity
- Right Standard
- Right Quality
- Right Timing
- Right Place
- Right Way
- Right Fit
- Right Execution

What Drives the U.S. Sourcing Decisions

■ Right Product

- Identify what the customer wants from the realm of what is possible (raw materials, component parts, color/print, style & functionality)



What Drives the U.S. Sourcing Decisions

- Right Cost
 - Ability to hit a target cost (duty, quota, logistics, raw materials, manufacturing cost)

What Drives the U.S. Sourcing Decisions

- Right Standard

- Create garments consistent with the brand value proposition (quality of the raw materials, construction, durability, etc.)



What Drives the U.S. Sourcing Decisions

- Right Fit
 - Ability to meet the customer's expectations for consistency and comfort

What Drives the U.S. Sourcing Decisions

- Right Quantity

- Need to match the supply to the demand
- Rapid re-orders to minimize markdowns and charge-backs



What Drives the U.S. Sourcing Decisions

- Right Timing
 - Ability to deliver the product when it's needed

What Drives the U.S. Sourcing Decisions



- Right Quality
 - Assurance that the product is manufactured exactly as conceived

What Drives the U.S. Sourcing Decisions

■ Right Place

- Ability to get product to the correct point of sale
- Minimize political or economic upheaval that could disrupt production (risk assessment)

What Drives the U.S. Sourcing Decisions



- Right Way
 - Floor Ready Merchandise (FRM)
 - Minimize Distribution Center and in-store handling



What Drives the U.S. Sourcing Decisions

- Right Execution
 - Ensure that the product moves smoothly through the development, manufacturing and retail stages

Two Routes to the Market

Direct

- Producer must have demonstrated ability in the above competencies
- Can meet large volume requirements
- Developed contacts in the US

Indirect

- US Buyers utilize sourcing agents, in-house and/or Independent
- Agents ensure the requirements are met
- New\small producers can enter--vetting



THE U.S. DECISION-MAKERS FOR SOURCING



US DECISION-MAKERS

- Retailers
- Brands

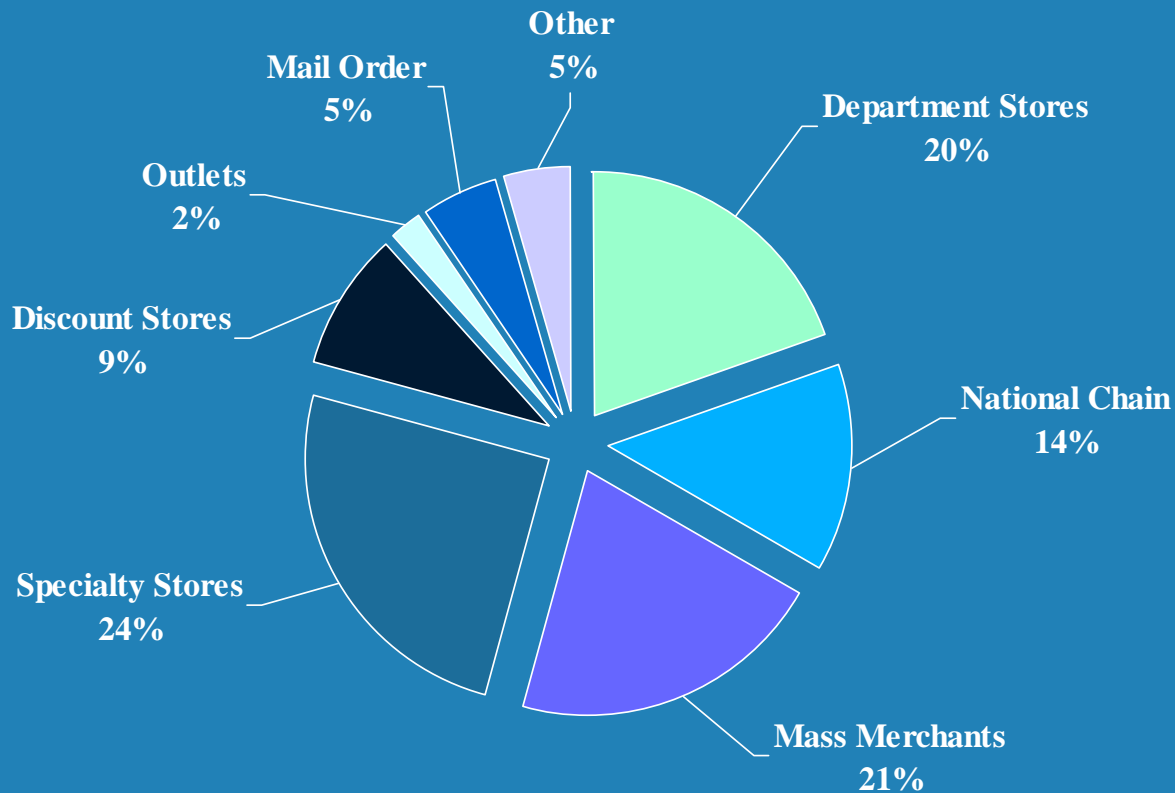
- On-line
- Catalogues

Retailers

<u>Channel</u>		<u>Who They Are</u>
■ Mass Merchants	➔	Wal-Mart
■ Department Stores	➔	Nordstrom
■ Specialty Stores	➔	The Limited
■ Discount Stores	➔	T.J. Max
■ Outlet Stores	➔	VF Outlet
■ Mail Orders	➔	L.L. Bean

US Retail Sales Channels 2001

(Total Sales of US \$166 Billion)





Mass Merchants

- Most sales are at the bottom of the fashion pyramid -- basics
- Very price sensitive
- Large quantities
- Direct and indirect purchases



Department Stores

- Provide a mix of Fashion merchandise and basics
- Broad range of price points
- Broad range of quantities for orders
- Direct and indirect orders



Specialty Stores

- Combine Fashion-basics with Fashion items
- Search for the new trends
- Will pay higher price for the product with consumer demand
- Initial quantities not high, but need ability to receive re-orders quickly
- Both direct and indirect orders



Discount Stores

- Focus on basics
- Price-driven selling strategy
- High-volume
- Prefer direct orders



Outlet Stores

- No longer only sell seconds or overstocks
- Very price sensitive
- Less emphasis on speed to market
- Prefers direct orders



Apparel Brands

- Concentrate on Fashion and Fashion-basics
- Quality and delivery are non-negotiable
- Quantities vary
- Direct and indirect orders



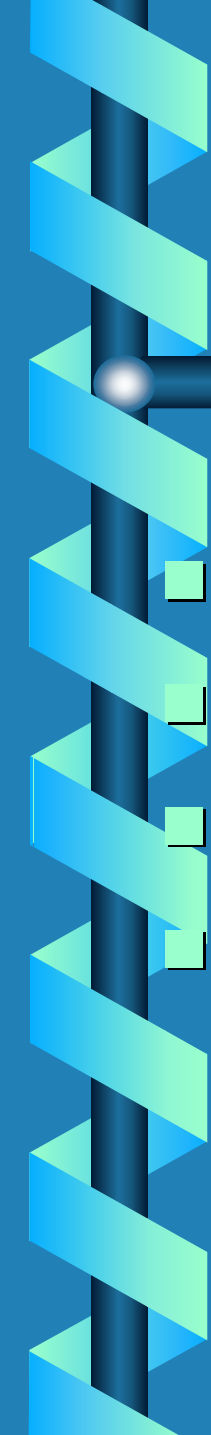
Catalogues

- Focus on Fashion-basics and Basics
- Price and Delivery are important
- Long lead times for catalog printing
- Prefer direct but do some indirect



On-Line Retailers

- Still a small share of U.S. Market
- Opportunity for small runs and fashion merchandise



OTHER FACTORS AFFECTING VENDOR SELECTION

- Qualifications for AGOA
- Corporate Codes of Conduct
- Security
- Supply Chain and Logistics



Regulatory Requirements

- ✧ U.S. Customs regulations



Qualifications for AGOA

- U.S. Companies looking for reliable suppliers will expect South Africa vendors to be familiar with AGOA even if the first shipments receive no preference
- Long-term success depends on duty-free preferences to offset higher costs of doing business in the region



Corporate Codes of Conduct

- Most U.S. Companies require approved vendors to comply with Code of Conduct
- Companies must be able to ensure the Code of Conduct is ALWAYS followed
- This is non-negotiable requirement for brands and retailers



Security

- Post September 11, 2001, U.S. Government and U.S. Companies require high level of security from all vendors
- Customs-Trade Partnership Against Terrorism (C-TPAT)
- C-TPAT and Container Security Initiative adds a new layer of requirements for the manufacturer as well as the local logistics



Supply Chain and Logistics

- Supply Chain and Logistics can be the difference between success and failure
- Emphasis on Fashion and Fashion-Basic and faster sourcing schedules puts pressure on the manufacturer
- Buyers expect producers to "*squeeze time out of the supply chain*"



Supply Chain and Logistics

Harvard Business School recommendation:

"For textile and apparel manufacturers the key to success is the ability to introduce sophisticated information links, forecasting capabilities and distribution management systems-- that is, supply chain management."



FULL-PACKAGE PRODUCTION

Today and the future



Full-Package Production

- Product development
- Fabric sourcing
- Cutting
- Quality Control
- Trade Finance
- Logistics



Full-Package Production

- Apparel manufacturer must source all of the materials required for the construction of a garment--factory to the floor.
- Apparel producers must source yarns and fabrics not provided by the buyers



Full-Package Production

- Investments in textile capacities are key
- Buyers that usually provide fabric, trims and zips are looking for producers that can do it all, so they can focus on their core business--marketing.



Squeezing Lead Times

- Retailers are looking for producers that can react responsively in high retail sales periods
- The use of EDI is growing to speed information on product demand to apparel producers
- Rapid re-orders that respond to market demand



Squeezing Lead Times

- Floor Ready Merchandise (FRM) is becoming pre-requisite (garments, labels, UPC codes, packaging, security tags, hangers etc,)